

Capital Formation, Saving, and Credit

TOTAL first-quarter investment was about the same as in the last quarter of 1963. Domestic fixed capital outlays were slightly higher and net foreign investment was up sharply, but these movements were offset by a dip in the rate of inventory accumulation. Personal saving was unchanged, and a sharp rise in corporate cash flow offset a substantial increase in the Government deficit on income and product account, stemming from the initial effects of the Federal tax cut in early March.

Monetary policy continued to be one of relative ease, and the banks added a near-record volume to their loans and investments. Most non-bank intermediaries continued to lend at record rates.

Interest rates have shown little change so far this year. Short-term rates have fluctuated somewhat, but are now about where they were at yearend. Long-term rates on Government and prime corporate securities have continued to drift upward, but rates on mortgages, municipal, and Baa corporate bonds are unchanged.

Financial developments in 1963

Gross private domestic investment moved up sharply in 1963, to a total of \$82½ billion, \$3½ billion over the 1962 rate. The advance within the year was even more pronounced—from \$78 billion in the opening quarter to \$87 billion in the fourth. Net foreign investment also advanced and averaged \$½ billion above 1962.

The rise in private investment was matched by a \$2½ billion increase in gross corporate saving, a \$½ billion advance in State and local government surplus, and a \$1½ billion reduction in the deficit of the Federal Government.

Personal saving showed little change from 1962.

The monetary authorities maintained a policy of relative ease during most of last year and bank lending remained at the record pace attained in 1962. The net flow of savings to nonbank financial intermediaries continued to expand and in 1963 lending by these institutions aggregated \$24½ billion, up \$3 billion from the 1962 rate.

With a generally easy monetary policy, and a rise in corporate internal funds that kept pace with the increase in corporate investment outlays, it was

possible to finance last year's record investment with only moderate upward pressure on interest rates. Most long-term yields drifted moderately upward or stabilized. Short-term rates rose sharply during the summer.

Credit easier in current expansion

Financial conditions have been much easier during the current expansion than in either of the two earlier cyclical recoveries following the Treasury-Federal Reserve accord of 1951. Interest rates have shown relatively little rise since the 1961 trough. During

Table 1.—Sources and Uses of Corporate Funds, Annual, 1960-63; Half Years, 1963-63^{1,2}
(Billions of dollars)

	1960	1961	1962	1963	1st half				2d half			
					1960	1961	1962	1963	1960	1961	1962	1963
Sources, total.....	40.7	50.2	58.8	68.0	23.3	26.2	26.8	22.5	22.9	31.2	32.6	31.5
Internal sources, total.....	20.1	20.0	24.9	37.4	13.1	13.2	17.3	18.5	14.0	15.4	17.0	18.4
Retained profit.....	8.2	5.0	7.0	7.8	3.8	2.4	3.0	4.0	2.4	3.3	3.4	3.3
Depreciation.....	22.9	24.0	27.9	29.6	11.3	11.6	13.7	14.5	11.6	12.2	13.6	15.0
External long-term sources, total.....	0.6	11.8	14.2	11.0	4.5	6.5	6.0	6.2	5.2	5.3	5.4	6.7
Stocks.....	3.0	4.5	2.1	0	1.8	2.8	1.4	1.4	1.4	1.7	0	1
Bonds.....	4.0	6.1	5.0	4.3	2.0	2.7	2.7	2.6	3.2	2.4	2.3	2.8
Other debt.....	1.7	2.2	4.2	4.0	1.0	1.0	1.9	2.2	0.6	1.3	2.5	2.8
Short-term sources, total.....	7.4	8.9	12.0	14.7	3.6	3.6	5.7	3.7	10.8	9.0	8.0	8.0
Bank loans.....	1.3	4	3.0	4.3	1.3	4	0	0	0	7	2.4	4.3
Trade payables.....	4.4	0.1	6.5	6.6	2.2	1	1.3	4.6	2.2	0.1	4.2	2.2
Federal income tax refunds.....	-1.6	0	0	1.2	-2.4	-2.1	-1.5	-1.8	2.7	1.3	2.0	2.0
Other.....	2.3	1.8	2.2	2.5	2.5	0	2.2	2.0	7	8	1.0	5
Uses, total.....	40.7	48.1	53.4	68.0	21.7	10.1	25.6	28.5	22.9	31.2	32.6	31.5
Increase in physical assets, total.....	33.3	31.4	35.8	28.3	18.7	14.5	18.9	18.0	14.5	10.9	10.0	19.4
Plant and equipment.....	30.8	29.0	32.0	34.0	14.0	13.0	15.1	13.4	10.1	15.7	18.9	18.0
Inventories (book value).....	2.5	1.3	3.8	4.3	4.1	1.5	3.8	3.4	-1.0	1.2	(9)	1.4
Increase in financial assets, total.....	10.5	17.0	17.5	20.7	2.0	4.7	0.1	7.7	7.0	12.4	11.7	12.0
Receivables.....	8.0	9.8	11.3	13.0	4.1	2.7	5.4	6.3	4.5	7.0	5.9	6.3
Consumer.....	1.8	1	2.3	2.3	1	2.8	0.3	0.7	1.7	2.1	2.8	2.0
Other.....	0.0	0.6	0.0	10.7	4.1	4.6	0.6	0.6	2.8	4.0	2.4	2.3
Cash and U.S. Government securities.....	-1.7	2.6	1.2	0	-3.0	-1.0	-3.1	-2.9	1.0	3.5	4.2	2.3
Cash (including deposits).....	1.0	2.0	7	4	-2.0	-9	-2.0	-3.0	3.0	3.9	3.8	3.4
U.S. Government securities.....	-2.0	0.6	4	0	-1.0	-2	-1	-1	-1.0	-0.3	0.4	0.4
Other assets.....	2.5	4.9	5.3	6.5	2.4	3.0	3.9	4.3	1.1	1.8	1.5	2.5
Discrepancy (uses less sources).....	-2.4	-1.8	-5.2	-1.0	-1.0	(9)	-1.8	-2.9	-8	-1.8	-2.4	-1.0

1. Data for 1960-63 may be found in Table V-10 of U.S. Income and Output: 1958-59 estimates are in Table 24 of July 1962 Survey.

2. Excludes banks and insurance companies.

3. Includes depletion.

4. Less than \$40 million.

Sources: U.S. Department of Commerce, Office of Business Economics, based on Securities and Exchange Commission and other financial data.

the prior advances, they had increased markedly as the economy emerged from the recession and continued to rise.

To a large degree, the dissimilarity in the behavior of borrowing costs reflects differences in the volume of commercial bank lending and investing activities. In earlier periods, total

commercial bank lending was reduced by reserve pressures applied by the monetary authorities as the economy expanded. The banks were able to accommodate the added corporate and consumer loan demands which accompanied the upswing in economic activity only by substantially reducing their purchases of mortgages and State and local government securities, and by selling large amounts of short-term Treasury securities.

During the current rise, bank reserves have not come under similar pressure, so that commercial banks have been able to lend larger sums during the expansion than they had during the recession. They have continued to add substantially to their portfolios of tax-exempt securities and real estate mortgages, while at the same time accommodating heavy demands for business and consumer credit. On balance, holdings of U.S. Government securities have been about maintained over the current expansion.

Among other differences between this and earlier expansions, the Federal Government this time has run a deficit well into the expansion period; during the previous postwar advances, the rise in tax receipts tended to bring about a surplus in the Federal account. The cash flow of nonfinancial corporations has expanded quite sharply during the current upswing, more than matching the rise in plant and equipment outlays. During earlier advances, cash flow had declined as plant and equipment expenditures rose—a development that led to a substantial volume of new capital issues.

The personal saving rate has hovered around 7½ percent throughout the upswing and persons have invested record amounts in the liquid liabilities of financial institutions. In earlier advances, the saving rate declined during the recovery phase, and later rose as the expansion proceeded. Further, there had usually been a marked shift from liquid claims to marketable securities, as interest rates on the latter moved up.

Financial Institutions

The expansion in bank credit and deposits during 1963 almost matched

the record pace of 1962. The flow of savings into nonbank financial institutions continued to increase. Short-term interest rates moved up sharply in the summer, and have since stabilized. Long-term interest rates drifted upward throughout the year.

Monetary policy relatively easy

As in other recent years, monetary policy tried to achieve two objectives: the provision of an adequate credit and monetary base to support continued business expansion, and reduce the balance of payments deficit. In pursuing the first objective, the Federal Reserve purchased a near record volume of U.S. Government securities for the year as a whole. In pursuing the second, it raised the discount rate in July and reduced open-market purchases during the summer.

Total bank reserves at yearend were approximately \$700 million above a year ago. The principal factor in this advance was the stepped-up pace of open-market purchases, which totaled \$3 billion. In addition to supporting the increase in bank reserves, these heavy purchases offset the effects of a \$½ billion gold outflow, and a \$2 billion increase in currency in circulation.

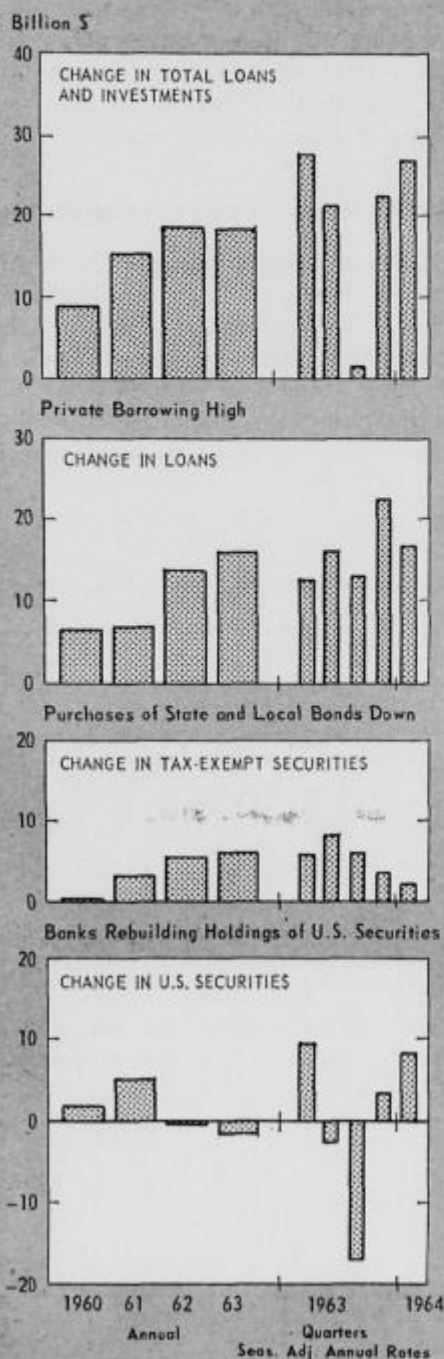
During the summer, the Federal Reserve attempted to limit the drain on our balance of payments by increasing domestic short-term interest rates; discount rates were raised from 3 to 3½ percent in July, and open-market purchases were reduced for the next few months. Also during July, the Federal Reserve increased to 4 percent the maximum rate of interest that member banks could pay on time certificates of deposit with maturities of 90 days to 1 year, in order to allow the banks to compete more effectively for foreign funds. While this latter move helped moderate the balance of payments, it had the effect of freeing reserves for domestic credit expansion by promoting switches from demand to time deposits.

Bank credit continued rapid expansion

Bank credit continued during 1963 the rapid expansion begun in 1961, with loans and investments increasing \$18 billion, about the same as in 1962.

BANK CREDIT

Bank Credit Continues to Expand



Time and savings deposits rose \$14 billion and demand deposits over \$3 billion.

Bank lending was marked by continued expansion of the amounts lent to private borrowers and State and local governments. Mortgage loans increased over \$5 billion as compared with a rise of \$4 billion in 1962. The increase was persistent and steady throughout the year. Business and consumer installment loans, at \$4½ billion and \$3 billion, respectively, were both \$½ billion greater than in 1962. Purchases of tax-exempt securities continued in 1963 at a rate somewhat higher than that of 1962; almost \$6 billion in such securities were added to bank holdings. Holdings of U.S. Government securities were reduced by \$3½ billion in 1963, mostly in short-term securities.

Not all these portfolio changes can be attributed to a search for higher yields to offset higher interest costs on the expanded volume of time deposits. The recent willingness of commercial banks to extend their commitments in tax-exempt securities and in mortgages has reflected in part the large expansion in bank lending power. Bank portfolio operations during the easy money periods associated with the recessions that reached bottom in 1954 and 1958 illustrate that banks invest in tax-exempts and mortgages during periods

of reserve ease, and not during periods of stringency.

The heavy volume of time deposits generated last year is in line with recent trends and contributed to the ease in bank lending. The increase in allowable interest rates encouraged a greater growth of time certificates of deposit this year than last.

The expansion of bank credit continued into the opening months of 1964. The rise in total bank loans and investments was larger than during any of the last three quarters of 1963. With the pace of lending to private borrowers and State and local governments off somewhat, the banks were able to step up their purchases of U.S. Government securities.

Other savings institutions

Savings institutions other than banks increased their assets by \$24½ billion in 1963; this was \$3 billion more than in 1962 and the largest on record. All major types of savings institutions shared in the advance, with the sharpest gain by savings and loan associations. The institutions stepped up their mortgages and other lending at an even faster pace, financing the excess either by increased borrowings, or by a sale of Government securities.

The asset growth of savings and loan associations accelerated in 1963. The \$13½ billion increase in assets was \$2

billion above the 1962 pace. The growth in shares, \$11 billion, failed to match the increase in mortgage lending. The associations accordingly stepped up their borrowings from Federal Home Loan Banks to a rate double that of the last 2 years. There was no change in the pace at which the associations added to their liquid asset holdings. Savings and loan associations have stepped up their activity in financing apartment-house construction: formerly negligible, such construction accounted for 22½ percent of the net total of mortgages made by savings and loan associations last year.

In the first quarter of 1964, the spread between share growth and mortgage lending widened further. The latter continued at the same pace as in the first quarter of 1963, but share growth in 1964 was 23½ percent less than in the same period of 1963. The gap was bridged by an increase in borrowing.

Mutual savings banks committed a net total of \$4 billion to the mortgage loan market in 1963, \$1 billion more than in 1962. Deposits moved modestly ahead of the 1962 pace with an increase of over \$3 billion. With mortgage loans rising faster than deposit inflows and retained profits, the mutual banks sold off Federal and municipal securities.

Assets of life insurance companies rose \$7½ billion in 1963, \$1 billion more than in 1962. The increase in assets was channeled into mortgages and corporate and foreign bonds. Life carriers made substantial investments in foreign securities during the first half of the year; after the proposal of the interest equalization tax, such investment fell off. As was the case with commercial and mutual savings banks, part of the excess of private lending over total funds available to life insurance companies was financed by the sale of Federal securities.

Financial markets

The cost of money rose moderately in 1963, with both long- and short-term interest rates moving upward. So far in 1964 short-term rates have continued stable, while long-term yields have continued their upward drift.

Long-term rates have tended to move

Table 2.—Sources and Uses of Corporate Funds by Industry, Years Ended December 31, 1960-63¹

(Billions of dollars)

	Manufacturing and mining				Railroads				Transportation other than rail				Public utilities and communication			
	1960	1961	1962	1963	1960	1961	1962	1963	1960	1961	1962	1963	1960	1961	1962	1963
Sources, total.....	18.6	21.7	24.6	29.3	.4	.4	.7	1.0	1.7	1.7	1.6	2.1	3.3	3.9	3.1	7.9
Retained profits ²	5.7	5.2	6.1	6.5	-.2	-.3	-.2	-.3	-.1	-.1	-.1	-.1	.7	.0	.0	.0
Depreciation.....	11.1	11.6	14.2	15.2	.8	.8	1.1	1.1	1.4	1.6	1.5	1.5	3.0	3.2	4.1	4.3
External long-term sources ³	1.6	2.6	2.4	2.6	-.1	-.2	-.2	(4)	.3	.2	.1	.3	3.0	3.3	3.4	1.0
Short-term sources ⁴	1.2	4.3	3.9	3.1	(9)	.7	(9)	.1	.1	.1	.1	.4	.6	.6	.7	.6
Uses, total.....	16.3	21.0	22.9	25.4	.8	.8	.9	1.4	2.0	2.1	1.8	1.8	3.4	3.9	10.2	3.1
Plant and equipment.....	15.3	14.3	15.6	16.6	1.0	.7	.8	1.1	1.7	1.7	1.8	1.6	3.0	3.7	9.1	3.4
Inventories (book value).....	1.0	1.0	2.6	2.7	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Receivables and misc. assets.....	2.3	5.6	3.9	3.6	(9)	(9)	(9)	(9)	.2	.2	.1	.1	.7	.0	.0	.4
Cash and U.S. Government securities.....	-2.3	.6	1.0	1.4	-.2	.1	.1	.3	(9)	.2	-.1	(9)	-.1	.6	.4	-.6
Discrepancy (uses less sources).....	-3.3	-1.3	-3.7	-3.9	.4	.4	.2	.4	.3	.3	.2	-.2	1.1	1.0	1.0	1.3

1. Data for the year ended June 30, 1957 may be found on p. 17 of the October 1960 Survey, and for the year ended June 30, 1958, on p. 22 of the November 1961 Survey; statistics for the year ended June 30, 1959 may be found on p. 4 of the November 1962 Survey, and for the years ended June 30, 1960-63 on p. 21 of the November 1963 Survey.

2. Includes depletion.

3. Includes stocks, bonded debt, long-term bank loans, mortgages and other long-term debt.

4. Less than \$50 million.

5. Includes short-term bank loans, trade payables, Federal income tax liabilities, and miscellaneous liabilities.

Source: U.S. Department of Commerce, Office of Business Economics, based on Securities and Exchange Commission, and other financial data.

up over the past five quarters, and there have been marked shifts in the yield relationships. Yields on long-term Government securities increased at a faster rate than those on either corporate or State and local securities of similar term. In part, this difference can

Table 3.—Personal Investment and Related Financing, 1959-63¹

	(Billions of dollars)				
	1960	1961	1962	1963	1964
Investment.....	36.9	38.8	35.1	39.6	40.2
New nonfarm housing.....	19.2	18.9	16.7	17.0	18.0
Noncorporate inventories and fixed investment.....	17.7	17.0	18.4	21.8	22.2
Borrowing.....	29.3	27.4	30.8	27.0	29.7
Residential mortgage debt, gross of amortization.....	21.9	20.2	22.0	24.0	26.4
Business and farm debt.....	8.4	7.2	8.8	12.4	12.3

1. Estimates for the 1946-57 period may be found on p. 16 of the April 1961 Survey, and for 1958 on p. 13 of the May 1963 Survey.

Sources: Securities and Exchange Commission, Federal Home Loan Bank Board, and U.S. Department of Commerce, Office of Business Economics.

be accounted for by the reduction in demand that took place as financial institutions moved out of Treasury securities. In part, it reflected an increase in the supply of long-term Treasury securities through advance refundings. In 1963, the Treasury sold almost \$4 billion of bonds with a maturity of 10 years or longer, \$2 billion more than in 1962. At the same time new issues of State and local securities were up \$1½ billion and corporate bond issues were also up \$1½ billion.

Following the July increase in the discount rate, there was a rapid rise in money rates in the summer months. Yields on Federal securities of 1 year or less increased about 40 basis points. Prime commercial paper rose 50 basis points between June and September. Finance company paper and bankers' acceptances followed closely behind at about 40 points. Since September, most short-term rates have stabilized at these higher levels.

Stock prices rose in surges throughout last year and well into the current period. During 1963, the rise in stock prices was associated with a sharp expansion in market credit and, apparently, with little help from the small investor, to judge from the behavior of mutual fund and odd-lot transactions.

Since margin requirements were raised last November, stock market credit has declined, and there has been some indication of increased participation by small investors in the market.

Issues of mutual fund stock rose in 1963 from the low level brought on by the market break in 1962, but have not yet regained their very high 1961 pace. Investor emphasis shifted to more conservative funds, particularly those featuring bonds and blue-chip stocks. The funds concentrating on growth stocks which had enjoyed popularity in 1961 and which suffered the largest declines in the 1962 market break have not yet begun to approach earlier levels.

Odd-lot activity in 1963 was featured by a cautious increase in participation as the year progressed and stock prices rose, but the 1961 level of participation in market trading by odd-lot holders was not reached either in 1963 or so far in 1964. In addition, odd-lot holders were sellers on balance throughout 1963, the opposite of their normal position. So far in 1964, odd-lot sales have about equaled purchases.

Corporate Finance

During 1963, corporations increased their fixed investment spending by \$2 billion over 1962. The rise in investment was more than matched by an increase in internal funds. Corporate long-term external financing aggregated about the same in 1963 as in 1962, and liquid asset accumulation was about the same in both years.

Corporate investment and working capital up

Corporate plant and equipment outlays in 1963 increased \$2 billion over 1962 and apartment-house building was up about \$1 billion. Each quarter in 1963 registered a gain and by the fourth quarter the rise since the beginning of the year approximated \$4 billion. Investment increased little from the fourth quarter to the first quarter of 1964, but for the year as a whole the rise is expected to exceed last year's.

Gross working capital of corporations increased \$24 billion in 1963, \$3 billion more than in 1962. Practically all of

the rise was in accounts receivable, which were up \$13 billion. The "other asset" item rose \$7 billion, while inventory accumulation was about unchanged at \$4 billion. The increase in working capital was accompanied by a rise in borrowing from banks which totaled \$1½ billion more than in 1962. Accounts payable rose \$6½ billion compared with a \$5½ billion increase the previous year.

Internal funds of nonfinancial corporations—undistributed profits and depreciation—rose about \$2½ billion in 1963, \$3 billion less than the 1962 rise. The rise in the earlier year was unusually high owing to the introduction of more liberal depreciation allowances and the investment tax credit; last year's increase reflected mainly higher business activity.

Preliminary first-quarter reports indicate that before-tax profits were \$1½ billion higher than in the final quarter of 1963. Retained earnings rose \$2½ billion, of which \$1½ billion was due to the tax cut and \$¾ billion to higher earnings. At the same time there was a temporary pause in corporate investment outlays.

Equity financing off

Corporate managers are turning more to debt than to equity to finance expansion, and equity retirement also is rising. The result has been a significant decline in the supply of new stock

Table 4.—Personal Consumption Expenditures and Related Financial Flows, 1959-63¹

	(Billions of dollars)				
	1960	1961	1962	1963	1964
Personal consumption expenditures, total.....	212.5	222.2	232.8	255.4	272.1
Durable goods only.....	48.0	41.9	43.5	48.2	51.6
Consumer borrowing ²	48.8	58.4	60.2	57.0	61.0
Secured by durables ²	31.5	22.1	32.2	35.5	38.0

1. Estimates for the 1946-57 period may be found on p. 16 of the April 1961 Survey, and for 1958 on p. 13 of the May 1963 Survey.

2. Gross of payment on installment debt.

Sources: Board of Governors of the Federal Reserve System, and U.S. Department of Commerce, Office of Business Economics.

issues in recent years and in 1963 retirements exceeded new issues.

New stock issues reached their post-war peak—\$3½ billion—in 1961, when the investors' interest in new issues was

high. Since then, total new stock issues have declined, to under \$1½ billion in 1963.

The steady buying of equities by institutions has reduced the net supply of seasoned stocks to the market. In particular, the fast growth of pension funds has contributed strongly to the demand for stocks. The price rises resulting from these conditions have

Net new bond issues during 1963 totaled \$5½ billion, up \$½ billion from the previous year. There was a greater step-up in gross flotations as companies took advantage of favorable market conditions to refinance debt. New mortgage borrowing totaled \$4¼ billion—up \$½ billion from the 1962 rate.

Liquid assets up

Corporations added \$1 billion to their liquid asset holdings, about the same as in 1962. Purchases of U.S. Government securities and of time certificates of deposit were higher, and holdings of currency and demand deposits were further reduced.

Consumer Borrowing Up Again

Household transactions generally expanded in 1963, but the rate of increase was somewhat less than that for 1962. Consumer outlays for autos and other durables averaged \$3 billion, or 7 percent higher last year; in 1962 such purchases had risen 10 percent. New home construction expanded modestly in 1963, following a 5-percent rise in 1962. Consumer, home mortgage, and noncorporate business borrowing was up 9 percent last year as compared with a 16-percent rise in 1962. Financial claims held by individuals rose by \$39.5 billion in 1963 as against \$38½ billion in 1962 and less than \$30 billion a year earlier. The other major component of saving, debt repayment, deviated from the pattern of slower growth: reflecting the increased debts contracted in recent years, such repayments rose \$5½ billion, or 9 percent, last year, in contrast to an advance of 7 percent in 1962.

The personal saving ratio has hovered around its long-run value of 7 to 7½ percent throughout the current business expansion. This was in marked contrast to other periods when auto sales were high.

Durable purchases spur credit increase

Automobile purchases last year totaled \$22½ billion, \$2 billion above the high 1962 pace. Auto production has moved to higher levels at the beginning of each of the last three

model years and is currently running at an 8 million annual rate.

Extensions of auto credit totaled \$22 billion last year, up somewhat more than \$2 billion from a year earlier. The rise in extensions continued into the first quarter of 1964, when new borrowing totaled \$23 billion at annual rates.

Consumers stepped up their purchases of other durables by 5½ percent and of clothing by 1½ percent in 1963, while increasing their borrowing to carry such goods by 8 percent. Additional needs for consumer credit were met by personal loans—many for higher education—and by repair and modernization loans.

With debt repayments totaling \$55 billion, the net increase in consumer installment credit amounted to \$6¼ billion, about \$1 billion more than the rise in 1962. All types of lenders increased the rate of net lending:

Table 5.—Persons' Financial Asset Accumulation and Debt Operation, 1959-63¹
[Billions of dollars]

	1959	1960	1961	1962	1963
Financial Asset Accumulation	30.4	20.1	29.7	38.7	39.5
Life insurance and pension reserves.....	8.9	9.2	9.9	10.2	10.7
Insurance reserves.....	3.5	4.2	4.5	4.8	5.1
Pension reserves.....	5.4	5.0	5.4	5.4	5.6
Other financial assets.....	21.5	10.9	19.9	28.5	28.8
Fixed-value claims.....	9.8	10.8	19.5	29.6	30.0
Currency and demand deposits.....	.3	-2.2	.5	4.1	6.5
Time and savings deposits at banks.....	4.1	5.0	8.8	15.0	10.5
Saving and loan and credit union shares.....	7.2	8.2	9.4	10.1	11.8
U.S. savings bonds, series A thru K.....	-1.8	-2.2	.8	.4	1.2
Marketable securities.....	11.7	.1	.4	-1.1	-1.2
U.S. Government.....	9.1	-2.7	-1.4	.5	-.2
State and local government.....	1.8	1.7	1.0	-.1	1.1
Corporate and other securities.....	.9	1.1	.8	-1.5	-2.1
Retirement of amortized debt.....	51.3	55.2	57.8	61.7	67.3
Nonfarm residential mortgages.....	8.7	9.2	10.1	11.1	12.2
Consumer installment credit.....	42.6	46.0	47.7	50.6	55.1
New borrowing².....	79.1	77.8	81.0	94.0	102.6
Residential and business (table 3).....	30.3	27.4	30.8	37.0	40.7
Consumer and security credit.....	48.8	50.4	50.2	57.0	61.9
Net increase in debt.....	27.8	22.6	23.2	32.3	35.3
Residential and business.....	21.6	18.2	20.7	25.9	28.5
Consumer and security credit.....	6.2	4.5	2.5	6.4	6.8
Financial asset accumulation less increase in debt.....	2.6	-2.6	6.6	6.4	4.2

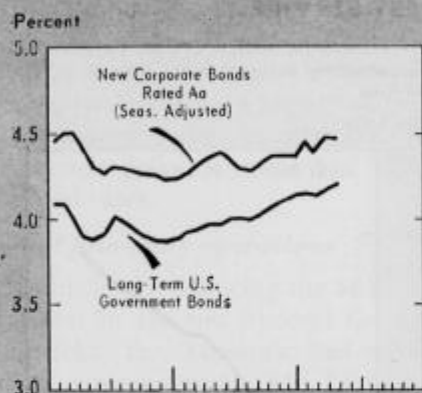
1. Estimates for the 1946-57 period may be found on p. 17 of the April 1961 *Survey*, and for 1958 on p. 14 of the May 1963 *Survey*.

2. Gross of retirements.

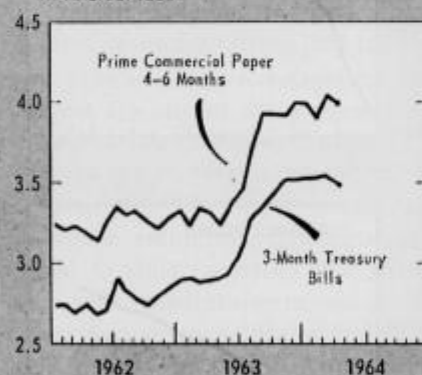
Sources: Securities and Exchange Commission, Federal Home Loan Bank Board, Board of Governors of the Federal Reserve System, and U.S. Department of Commerce, Office of Business Economics.

INTEREST RATES

Long-Term Yields Have Drifted Upward in Recent Months



While Short-Term Rates Have Stabilized



Data: Treas., FMA, Moody's, & FRB

U.S. Department of Commerce, Office of Business Economics 64-5-12

prompted corporate managers to purchase more shares in the market for options, or retirement.

Judging from registrations filed with the SEC, there will be some increase in the new supply of equity issues in 1964, but if issues by a major communications company and the space communications agency sponsored by the Government are set aside, then stock issues for this year are apparently not out of line with the downward trend of other recent years.

particularly commercial banks and sales finance companies. In addition to lending \$2½ billion directly to consumers, the banks advanced \$1½ billion to finance companies, thus financing—directly or indirectly—two-thirds of the expansion in consumer credit.

Mortgage borrowing continues strong

Individuals continued to add substantially to their indebtedness on mortgages secured by one- to four-

Table 6.—Personal Saving and Investment and Related Financial Flows, 1959–63¹

[Billions of Dollars]					
	1959	1960	1961	1962	1963
Investment in housing and noncorporate business.....	36.9	36.8	35.1	39.5	40.2
Less: Associated borrowing.....	30.3	27.4	30.8	37.0	40.7
Capital consumption allowances.....	15.9	16.5	16.8	17.7	18.3
Plus: Financial assets and debt retirement.....	81.7	75.3	87.6	100.4	106.8
Less: Consumption borrowing.....	48.8	50.4	50.2	57.0	61.9
Statistical discrepancy.....	—1.1	—3.9	—2.7	—9.9	—3.2
Equals: Personal savings.....	23.6	21.7	27.6	29.1	29.3
Total sources of funds.....	118.6	116.0	125.3	140.8	150.2
Total uses of funds less discrepancy.....	118.6	116.0	125.3	140.8	150.2

1. Estimates for the 1946–57 period may be found on p. 20 of the April 1961 Survey, and for 1958 on p. 15 of the May 1963 Survey.

Sources: Board of Governors of the Federal Reserve System, Securities and Exchange Commission, and U.S. Department of Commerce, Office of Business Economics.

family dwelling units last year. Such obligations rose \$16¼ billion in 1963, as compared with \$13½ billion a year earlier. For the third successive year, the net increase in borrowing on such houses rose sharply, even though there was little change in single family housing starts; in 1963, 977,000 single units were started, as compared with 968,000 in the previous year, 946,000 in 1961, and 972,000 in 1960. However, according to the new Census Bureau survey sales of new one-family houses were up last year.

Among the factors involved in this rise in borrowing relative to house sales were: higher prices for houses; a lowering of downpayments; a continued growth in the trading of old houses; and increased borrowing for nonhousing purposes. No statistics are available to shed light on the relative portion of mortgage debt used for housing and nonhousing purposes.

The very active demand for mort-

gages on the part of banks and other lending institutions effected a gradual easing of mortgage terms. Mortgage rates held steady when most other long-term rates were drifting upwards, and maturities and downpayments showed a tendency toward liberalization throughout the year.

Although savings and loan associations account for the bulk of the mortgages made in this country, it is noteworthy that variations in commercial bank participation accounts for most of the swings in total mortgage lending. Banks step up their participation in periods when reserve positions are easy, and cut back drastically at other times. Thus, commercial banks actively sought mortgage loans during the 1954 and 1958 recessions, and cut back their commitments after a year of recovery. During the current upswing, bank reserve positions have remained fairly easy, and commercial banks have remained in the mortgage market throughout the period. Their mortgage lending reached an alltime high of \$5 billion in 1963, up \$1 billion from 1962 and \$3½ billion from 1961.

In the case of the other major mortgage lenders, the flow into mortgages has been steadier. In part, this is because of a scarcity of suitable investment alternatives for savings and loan associations and mutual savings banks. Also contributing to this result has been the fact that the institutions are not subject to the direct effect of the reserve pressure associated with monetary policy.

Debt service continues to rise

As indicated in the chart on this page, there has been in recent years a continued growth in debt service charges—interest plus amortization—relative to income. The growth in this ratio has in recent years been much slower than in the early postwar period, but an acceleration of the upward movement is evident in the figures for the most recent year, reflecting the high volume of borrowing since 1961.

Government Borrowing

The Federal Government's financial position improved moderately over the year. Receipts grew faster than ex-

penditures, and the pace of Federal borrowing slowed. State and local governments experienced a similar improvement in fiscal position, but their borrowing rose during the year, as they took advantage of favorable terms to reduce the cost of carrying their debt.

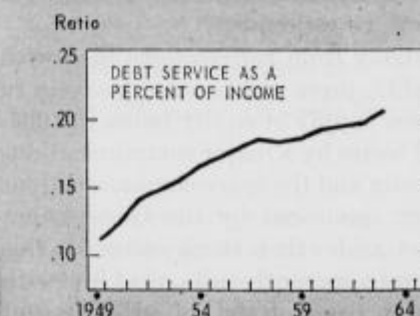
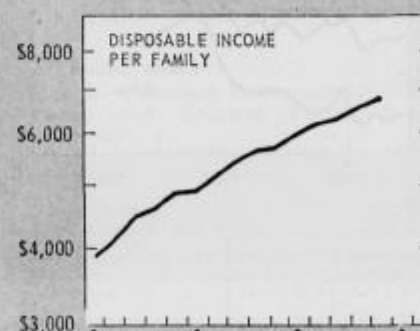
Federal borrowing off

Federal receipts rose \$8 billion in response to the substantial improvement in business activity last year. Expenditures rose \$6 billion, and the

DEBT SERVICE

Repayments and Interest Charges On Consumer and Mortgage Debt Continue to Rise

Ratio Scale



U.S. Department of Commerce, Office of Business Economics, 64-5-13

national accounts deficit was reduced to \$2½ billion. Federal lending programs were unchanged in the aggregate: increases in lending to savings and loan associations and to foreign entities were offset by net sales of mortgages out of the FNMA portfolio. The Federal Government cash balance was little changed from a year earlier.

The improvement in the current-account deficit was carried into the debt operations of the Federal Government, and its net debt (including agency) rose only \$5 billion last year, as compared with a rise of \$7½ billion a year earlier.

The national income deficit widened in the first quarter, as withholding taxes were cut and Government salaries increased; the immediate impact of these two measures was to increase the government deficit to some \$5½ billion at annual rates.

Federal financing operations

In addition to financing the \$4 billion expansion in the net Federal Government debt, the Treasury had to refinance approximately \$30 billion of maturing securities, and elected to advance-refund another \$14 billion. The Treasury again favored fairly short-term issues for raising new money.

Last year's advance refunding was the largest for any of the 4 years since the introduction of this technique. In addition to the replacement of medium-term securities by longer maturities, the advance refunding technique was also used to shift securities due within a year into medium-term securities. Last year's experience differed from that of 1962 mainly in that the operations were carried out on a bigger scale.

The vast bulk of subscriptions for new cash were securities maturing within 1 year. However, there was a \$1.9 billion issue due within 7 years; and two small issues aggregating over \$½ billion and due in more than 30 years.

As a result of last year's public debt operations, the short-term debt in the hands of the public rose \$2 billion over the year, while debt due in more than 5 years was up \$4½ billion. Intermediate term issues due in more than 1 but less than 5 years were down \$3½ billion. The balance of the increase

in public debt was accounted for by the first substantial increase in savings bonds issues in 10 years.

The Federal Reserve System added \$3 billion to its holdings. Other groups which increased the pace at which they acquired Federal securities were State and local governments (\$1½ billion), and individuals (\$1¼ billion, mostly savings bonds). The major financial institutions—commercial and mutual savings banks, and insurance carriers—liquidated Federal securities on balance.

Foreign and "miscellaneous" holders reduced the pace at which they acquired Treasury securities, while nonfinancial corporations showed little change.

Among Federal agency securities there were sharp increases in the volume of Federal Home Loan Bank debentures, and a reduction in the outstanding volume of Federal National Mortgage Association debentures. In both 1962 and 1963, the net total of Federal agency security issues aggregated about \$1½ billion.

Table 7.—Public and Private Debt, End of Calendar Year, 1959-63¹

	Net debt					Gross debt				
	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
Total public and private debt.....	646.2	696.2	746.4	1,038.7	1,093.5	866.1	1,067.2	1,008.8	1,177.9	1,260.4
Total public debt.....	296.8	301.4	312.1	323.7	340.7	281.3	389.2	402.7	421.2	434.8
Federal Government and agency ²	243.2	241.0	248.1	256.9	263.2	321.8	322.1	330.2	346.3	347.8
Federal Government.....	237.2	235.2	241.8	248.1	251.0	290.8	290.2	290.2	303.5	300.3
Federal agency.....	6.0	5.8	6.3	7.0	7.7	31.1	31.9	34.0	30.8	38.4
State and local governments ³	53.6	60.0	64.0	73.7	70.5	62.4	67.1	72.5	80.0	84.7
State governments.....	12.7	14.3	16.2	18.2	19.8	17.2	18.1	20.0	21.9	23.4
Local governments.....	41.0	45.6	47.8	55.5	50.7	45.2	49.0	52.5	58.0	61.3
Total private debt.....	349.4	394.8	434.3	715.0	752.8	584.8	678.0	606.1	756.7	825.6
Total, all corporations.....	283.8	302.6	323.0	547.4	574.6	337.7	361.0	355.9	415.2	447.7
Long-term ⁴	120.8	139.1	150.4	161.4	174.9	150.0	169.0	180.1	195.1	211.6
Short-term ⁵	163.0	163.4	172.6	386.0	400.6	187.7	192.0	175.8	220.1	236.1
Notes and accounts payable.....	83.7	89.7	95.4	102.6	111.8	105.1	107.0	114.6	130.0	134.1
Other.....	79.3	73.7	77.2	83.6	87.9	81.3	85.0	61.2	67.1	71.9
Railway corporations.....	12.1	11.9	11.0	11.7	11.9	13.5	13.4	13.2	13.1	13.3
Long-term ⁴	10.1	9.9	9.8	9.7	9.7	11.2	11.1	10.9	10.8	10.5
Short-term ⁵	2.0	2.0	1.2	2.0	2.2	2.3	2.3	2.3	2.3	2.8
Notes and accounts payable.....	1.5	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.6
Other.....	1.6	1.4	1.0	1.6	1.0	1.6	1.6	1.7	1.7	1.6
Nonrailway corporations.....	271.7	290.7	312.0	535.7	562.7	324.2	347.6	342.7	402.1	434.4
Long-term ⁴	110.2	129.2	139.0	161.4	174.9	141.7	154.9	169.5	184.3	200.6
Short-term ⁵	161.5	161.5	173.0	374.3	387.8	182.5	192.7	173.2	217.8	233.8
Notes and accounts payable.....	83.2	89.7	95.4	102.6	111.8	99.8	106.0	113.5	132.5	133.5
Other.....	65.8	72.3	76.7	81.0	86.2	79.0	81.4	60.3	65.3	70.3
Total (individual and noncorporate) debt.....	264.1	388.4	330.3	241.0	278.2	244.1	280.4	310.3	341.0	378.2
Farm, total ⁶	22.0	25.1	27.5	30.2	33.2	25.0	25.1	27.5	30.2	33.2
Farm mortgage.....	11.3	12.8	13.9	15.2	16.8	11.3	12.8	13.9	15.2	16.8
Farm production.....	11.7	12.3	13.6	15.0	16.4	12.7	12.3	13.6	15.0	16.4
Nonfarm, total.....	242.1	363.3	302.8	210.8	244.4	229.1	255.3	282.8	310.8	344.6
Mortgage.....	100.8	174.5	190.4	210.6	234.2	100.8	171.5	180.4	210.6	234.2
1-4 family residential.....	124.8	134.2	146.1	157.2	171.7	124.2	134.2	146.1	157.2	171.7
Multifamily residential and commercial.....	30.5	40.3	44.3	53.4	62.5	30.5	40.2	45.3	53.4	62.5
Other nonfarm ⁷	80.8	89.0	92.4	100.8	110.8	80.8	89.0	92.4	100.8	110.8
Commercial.....	15.3	16.6	17.9	19.3	20.1	15.3	16.6	17.9	19.3	20.1
Financial ⁸	12.4	14.2	15.0	15.3	20.8	12.4	14.3	15.9	15.3	20.8
Consumer.....	53.1	58.2	59.5	66.2	69.9	53.1	58.0	59.6	66.2	69.9

1. Data for State and local governments are for June 30 of each year.
2. Estimates for the period 1959 through 1963 appear in the July 1960 Survey; data for 1957 may be found on p. 16 of the May 1962 Survey, and for 1958 on p. 16 of the May 1963 Survey.
3. Includes categories of debt not subject to the statutory debt limit.
4. Net Federal Government debt is defined as the gross debt outstanding less Federal Government securities held by Federal agencies and trust funds, and Federal agency securities held by the U.S. Treasury and other Federal agencies. It thus equals Federal Government and agency debt held by the public.
5. Details of Federal obligations may be found in the Treasury Bulletin.
6. Includes State loans to local units.
7. Long-term debt is defined as having an original maturity of 1 year or more from date of issue; short-term debt as having an original maturity of less than 1 year.
8. Comprises debt of farmers and farm cooperatives to institutional lenders and Federal Government lending agencies, and farm mortgage debt owed to individuals and others; farmers' financial and consumer debt is included under the "nonfarm" category.
9. Comprises debt incurred for commercial (nonfarm), financial, and consumer purposes, including debt owed by farmers for financial and consumer purposes.
10. Comprises debt owed to banks for purchasing or carrying securities, customers' debt to brokers, and debt owed to life insurance companies by policyholders.

Sources: U.S. Department of the Treasury; Board of Governors of the Federal Reserve System; Federal Home Loan Bank Board; U.S. Department of Commerce, Bureau of the Census, and Office of Business Economics.

Table 8.—Total Nonfarm Mortgage Debt by Borrowing and Lending Groups, by Type of Property¹

[Billions of dollars]

	1959	1960	1961	1962	1963
Total nonfarm residential and commercial mortgages.....	178.7	194.9	212.4	236.4	264.3
Corporate borrowers ²	17.9	19.5	22.0	25.8	30.0
Noncorporate borrowers.....	160.8	174.5	190.4	210.6	234.2
1-4 family residential mortgage debt.....	130.9	141.3	153.1	166.5	182.3
Savings and loan associations.....	49.5	55.4	62.4	69.8	79.1
Life insurance carriers.....	25.6	24.9	25.8	26.4	27.3
Mutual savings banks.....	16.9	18.4	20.0	22.1	24.7
Commercial banks.....	19.2	19.2	20.0	22.1	25.1
Federal National Mortgage Association.....	5.0	5.5	5.4	5.2	4.0
Individuals and others ³	16.7	17.9	19.4	20.9	22.2
Multifamily residential and commercial⁴.....	47.9	52.7	59.3	70.0	81.9
Savings and loan associations.....	3.6	4.7	6.4	9.0	11.8
Life insurance carriers.....	12.8	13.9	15.3	17.1	19.5
Mutual savings banks.....	8.0	8.5	9.1	10.1	11.5
Commercial banks.....	7.4	7.9	8.7	10.3	12.0
Federal National Mortgage Association.....	.6	.6	.7	.7	.7
Individuals and others.....	15.5	17.1	19.2	22.7	26.5

1. Date for 1929-44 may be found on p. 18 of the September 1953 Survey and for the 1945-56 period on p. 22 of the May 1957 Survey; estimates for 1957 are on p. 20 of the May 1962 Survey, and for 1958 on p. 17 of the May 1963 Survey.

2. The corporate mortgage debt total is included in the total corporate long-term debt outstanding (table 2).

3. Includes portfolio loans of the Veterans' Administration.

4. The data represent mortgage loans on commercial and residential property, excluding multifamily residential and commercial property mortgage debt owed by corporations to other nonfinancial corporations.

Sources: U.S. Department of Agriculture, Agricultural Research Service; Board of Governors of the Federal System; Federal Home Loan Bank Board; and U.S. Department of Commerce, Office of Business Economics.

State and local government borrowing

The surplus of State and local governments—considered as a group—increased moderately last year, and the improvement has apparently continued into the current period. Nonetheless, State and local governments floated a record volume of bonds on the new-issue market last year.

Since 1960, the easing of pressures on commercial banks had the effect of enlarging the market for State and local bonds. Whereas previously banks had

only entered this market during the easy-money period associated with recession, in recent years the commercial banks have been in the market for tax-exempt securities at all times. In each of the years 1961, 1962, and 1963, they added between \$3 and \$5 billion annually to their portfolios, an amount roughly equal to three-fourths of the net increase in State and local debt outstanding over these 3 years. With such sizable additional funds entering the State and local market, the yield spread began to widen further as State and local bond prices were bid up more than Federal bond prices. In 1962 and 1963, the yields on State and local Aaa rated bonds have averaged 77 percent of those on long-term Federal securities.

This yield spread between tax-exempt and Federal and other securities has encouraged some governmental units to reduce costs by investing the proceeds of new security issues in time deposits or securities carrying a higher yield.

In terms of interest costs, this technique is equivalent to refinancing. In terms of a balance sheet, however, the new technique differs from a refinancing since both the old and the new debt remain outstanding, while in a refinancing only the new debt remains on the balance sheet. This technique was reflected in increased liquid asset holdings by State and local governments, which rose \$4 billion—\$1½ billion more than in the previous year.

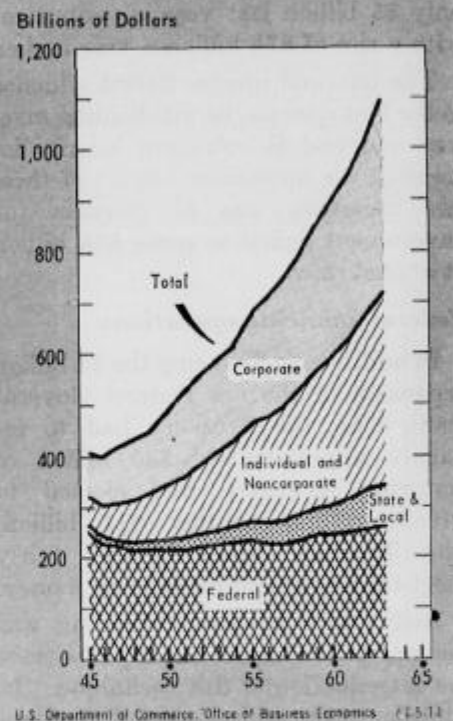
The spurt in borrowing was most pronounced among revenue issues, which totaled \$4 billion last year, \$1½ billion above the 1962 mark. Bonds issued by special authorities were

up \$1 billion. Most other categories of tax-exempt bonds showed little change.

As shown in the chart below, State and local government debt has been one of the fastest rising debt categories over the postwar period. State and local obligations have risen

PUBLIC AND PRIVATE DEBT

Postwar Rise Centers in Private and Municipal Obligations



some 6 times, as compared with 4 times for corporate debt and 7 times for individual debt. This high volume of borrowing has been occasioned by the heavy demand for community facilities to service our growing population.